CRIMINAL INTELLIGENCE SERVICE CANADA

09 REPORT ON ORGANIZED CRIME

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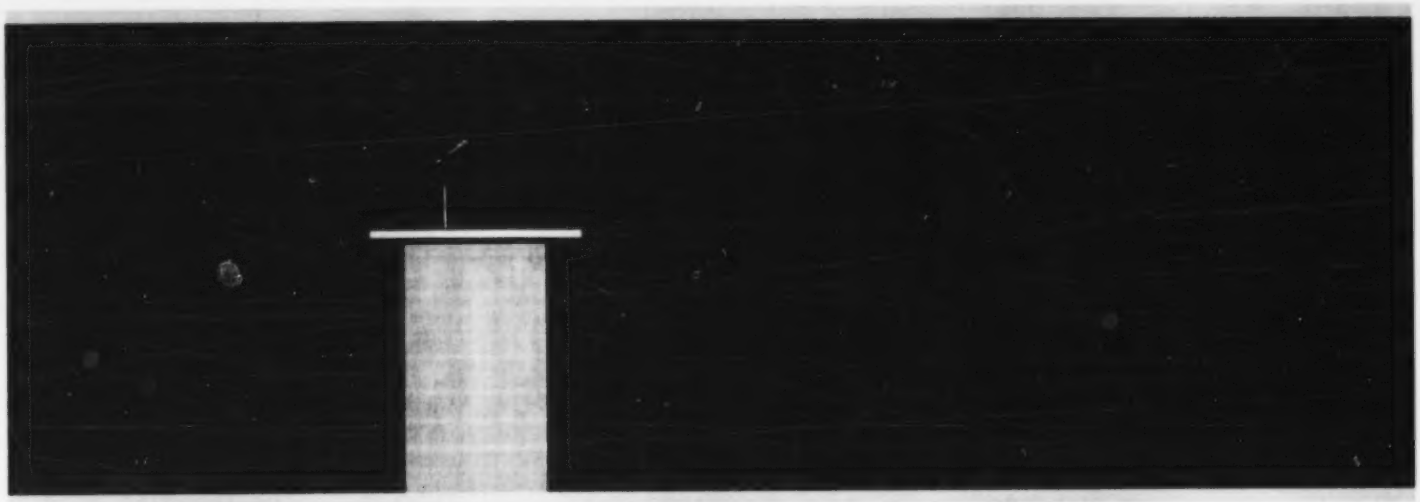

MESSAGES

MESSAGE FROM THE CHAIR

RCMP Commissioner William J.S. Elliott

As Chair of the Criminal Intelligence Service Canada (CISC) National Executive Committee, I am pleased to present CISC's *2009 Report on Organized Crime*. This 24th edition of the annual publication provides a current overview of organized crime and criminal markets in Canada.

The report also highlights how integrated, intelligence-led policing can be an effective, proactive measure in combating and reducing organized crime in our neighbourhoods. The police operations that are featured throughout the report illustrate the benefits of joint operations and of sharing information to disrupt and dismantle criminal activity.

No longer bound by geographic location, organized crime groups are increasingly diverse and focused on multiple criminal activities. As such, the law enforcement community must adapt to combat these criminal groups and networks.

Through close collaboration with Canada's broad law enforcement community, CISC provides information and strategic intelligence that helps decision-makers and law enforcement better target organized crime. It is an essential process that guides law enforcement activities and operations.

As law enforcement increasingly shifts from a "need to know" culture to one that is characterized by a "responsibility to share," there is much to be gained from a well-informed public. A better understanding of the challenge is the first step to greater public engagement and cooperation in the fight against organized crime.

This annual report is intended as a public service. Its goal is to raise awareness of organized crime in Canada, highlight some of its many detrimental impacts and help Canadians avoid falling victim to it.

Through enhanced awareness and effective collaboration among law enforcement agencies, government, the private sector and the public at large, we can move forward in reducing the threat and harm that criminal groups inflict on Canadian society.

Together, we can all play a role in building safer and better communities for everyone.

MESSAGE FROM THE ACTING DIRECTOR GENERAL

Inspector John Sullivan, Ontario Provincial Police

The *Report on Organized Crime* is Criminal Intelligence Service Canada's public resource document of criminal organization activities in Canada. As Canadians, we all share the threat of organized crime and must ensure we are kept up-to-date on the developments of criminal groups that pose a threat to our safety.

The central component in the *Report on Organized Crime* deals with a national overview of criminal markets in Canada and is a regular and consistent feature. It examines major developments and trends in the marketplace to better determine which criminal groups have the capacity to adapt and capitalize upon these trends. While this report offers a broad national overview, CISC also provides more detailed strategic analysis to senior law enforcement and government officials to assist with decision-making processes at an operational and tactical level.

Unlike Reports in the past that carried a 'Feature focus' on a particular criminal market, this year the Report exposes select criminal markets in relation to actual law enforcement operations. This illustrates how the intelligence cycle comes full circle to the direct benefit and safety of Canadians. It is also intended to convey the importance of collecting information and intelligence that is very much based on partnerships within law enforcement.

There are criminal intelligence bureaus in each province that foster and maintain critical working relationships within the law enforcement community. The CISC network is comprised of numerous police agencies but it is also made up of valuable contributions from other organizations in a unique position to offer information and intelligence. From Canada Border Services Agency, to Correctional Service of Canada, to the Canadian Bankers Association, to other key sources within law enforcement, CISC is committed to a wholly integrated approach of collecting and sharing strategic intelligence on organized crime.

Collaboration is important not only among CISC partner agencies but also with all Canadians who are encouraged to cooperate with law enforcement. I encourage the public and the media to distribute the information provided in this public resource and to promote awareness regarding the impact and negative results of organized crime activity. A concerted effort and partnership will strengthen our collective efforts and help keep Canadians safe.

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INTRODUCTION

"With the support of the community and by joining forces with every police agency in the region we have shown that the most effective way to fight organized crime is with an organized opposition of dedicated men and women who believe we all have a right to live safely and without fear. These are the people who will always defeat organized crime wherever it surfaces." ***Vancouver Police Department, Chief Constable Jim Chu***

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INTRODUCTION

Criminal Intelligence Service Canada (CISC) produces the *Report on Organized Crime* each year to make the public aware of the capabilities of organized crime and to provide a general overview of criminal markets in Canada. Because the criminal marketplace is a dynamic system of activities that ebbs and flows with demand and supply, it is important that Canadians are informed of the evolving nature of criminal groups and their threats. The Report also serves to illustrate the critical role of integrated, intelligence-led policing in combating the threat and harm of organized crime.

In this section, the foundations and factors that enable criminal activity are explored. It provides a conceptual framework of how criminal organizations operate and may also serve to dispel popular myths commonly associated with organized crime. This is followed by a general overview of some of the criminal markets in Canada, and new to the Report this year, select criminal markets will be featured in relation to actual law enforcement operations. This illustrates not only how the intelligence cycle comes full circle to the direct benefit and safety of Canadians, but also how agencies are conducting joint operations. The Report concludes with a look at the public's role in the fight against organized crime and how the most effective way to deal with organized crime is through partnerships and sharing information within law enforcement.

What is Organized Crime?

CISC and its member agencies use the Criminal Code definition to identify and assess organized crime in Canada. In using this definition, all contributing agencies base their assessments on the same criteria. This enables the CISC community to produce the broadest and most accurate assessment of organized crime groups. The Criminal Code (467.1) definition is as follows:

"Criminal organization" means a group, however organized, that

(a) is composed of three or more persons in or outside of Canada; and

(b) has as one of its main purposes or main activities the facilitation or commission of one or more serious offences that, if committed, would likely result in the direct or indirect receipt of a material benefit, including a financial benefit, by the group or by any of the persons who constitute the group.

It does not include a group of persons that forms randomly for the immediate commission of a single offence.

Foundations of the Criminal Marketplace

Businesses in legitimate economic sectors use a variety of techniques to identify opportunities, coordinate with other agencies, manage risk and adapt to changes in the marketplace. Organized crime groups operate within both the criminal and legitimate marketplaces and function in the same way as legitimate business but choose to exploit legal/regulatory loopholes or vulnerabilities to manage their activities. While not exhaustive, below are some consistent factors of how organized crime groups operate within illicit and licit marketplaces.

Evolution of criminal groups and networks

Organized crime portrayed as a homogeneous ethnic group with distinct rules of conduct was most popularly expressed in the film, The Godfather. However, with globalization and increasingly multi-cultural communities, organized crime is now best understood as small, loosely structured and often multi-ethnic networks that adapt quickly to any pressures or changes in the criminal or legitimate marketplaces. These networks re-group, merge or disband on a regular basis due to law enforcement intervention, competition, and other pressures within the marketplace.

The varying threat from street gangs

Most street gangs across Canada operate with relatively low criminal capabilities, a defined area of operation, and involvement in street-level crimes such as drug retail, theft or armed robbery. Some, however, are more sophisticated and undertake crimes like drug importation or manufacturing with an expanded geographical scope. Street gang activities often impact the general public more directly than other organized crime groups, particularly as some gangs pose a public safety threat through their high propensity for violence. The gangs use a wide variety of weapons, ranging from firearms, knives and machetes to hammers and baseball bats. While their activities are generally not sophisticated, their criminality in many jurisdictions is a daily occurrence requiring a consistent allocation of police resources.

Measuring risk

Criminal groups that insulate themselves from risk tend to be less visible and more difficult to link to criminal behaviour. Organized crime groups attempting to manage the risks of their criminal enterprises will employ methods to deter law enforcement and mitigate the threats from rivals. Common methods include: off-loading risky activity to subordinates or 'expendable' individuals; conducting counter-surveillance on law enforcement and rivals; dealing only with trusted associates; and exploiting lawyers and accountants to facilitate their activities, particularly the laundering of proceeds.

Targeting legitimate sectors

The dividing line between illegality and legality is fine and can be redrawn with changes in regulation or legislation. As a result, some criminal groups undertake a series of enterprises that are on the margins of legitimacy or entirely legitimate. Some operate businesses that are primarily intended to facilitate criminal activities while others offer legitimate trade but also facilitate illicit enterprise through, for example, laundering funds, income tax fraud, enabling frauds or the illicit manipulation of stock markets. Criminal groups may own or operate these businesses openly, conceal their dealings through nominees, or collude with, coerce, or deceive the owners or employees. These businesses can also enable criminal groups to distance themselves from criminal activities and provide an appearance of legitimacy.

Organizational resiliency and criminal market disruption

Most criminal markets appear highly resistant to long-term disruption. Temporary voids in criminal markets will continue to be areas of opportunity for crime groups that have the capability to exploit or expand into these voids. Some organized crime groups continue to display an organizational or operational resiliency in their ability to recover from law enforcement disruption, or, in some cases, to remain criminally active during incarceration. In addition, incarceration can be the basis for new criminal collaborations and the upgrading of criminal skills.

Enabling Factors

Illegal markets create the conditions for which other services are needed to help the markets operate. Following are highlights of some key criminal methods that facilitate how illicit goods or services are performed, manufactured, transported, distributed, or imported/exported.

Money Laundering

Money laundering is a key activity that enables groups to continue their criminal activities, maintain possession and control of their profits and reinvest in further criminal endeavours. There are numerous ways to launder criminal proceeds that evade regulatory requirements. Traditional methods involve **white-label ATMs**, the use of front companies, currency exchanges and multi-jurisdictional and off-shore transactions. Newer avenues include the use of prepaid cards, which are portable, valuable, exchangeable and anonymous. Another newer trend is transactions involving precious metals through digital currency exchange services, which are not tied to banks.

White-label ATMs. *Automatic banking machines (ATMs) that are referred to as 'white-label' provide an alternative source of cash dispensing in place of traditional branded ATMs from banks. 'White-label' or 'no name' ATMs are independently operated and display no major financial institution or bank labels.*

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Cyber techniques

The use of technology for criminal purposes poses significant threats to legitimate institutions and the public. It offers criminals more anonymity and the possibility of conducting illicit activities across numerous jurisdictions, often perpetrated using misleading Internet Protocol (IP) addresses that make it difficult to pinpoint the origin of an attack. Several tools are available to cyber criminals seeking to defraud consumers and conduct large-scale data theft. **Botnets**, for example, are used to compromise legitimate websites, including those of private industry and the government, and expose the online community to the potential for large-scale data theft of personal and financial information. Cyber criminals also target online shopping and credit provider sites using **malware** and **keystroke-logger** programs to steal the credit card data required to produce counterfeit cards. These skills and tools bypass **skimming** activity at point-of-sale terminals and ATMs. **Phishing** schemes, another popular tool for cyber criminals to steal credit card data, use malicious mirror sites of financial and banking institutions, as customers increasingly turn to the Internet to seek out attractive offers and conduct their banking.

Botnets *are networks of hijacked computers used to spread unsolicited email, malware and crimeware such as trojans, viruses and related hostile code to unsuspecting commercial and private users of the Internet.*

Malware *is malicious software specifically designed to gain access or damage a computer system without the owner's informed consent. It includes computer viruses, worms, trojan horses, spyware, crimeware and other unwanted software.*

Keystroke logging *is the practice of observing and recording the keys struck on a keyboard. This is typically done in a covert manner so that the person using the keyboard is unaware they are being monitored. There are numerous keylogging techniques that range from hardware and software programs to electromagnetic and acoustic analysis.*

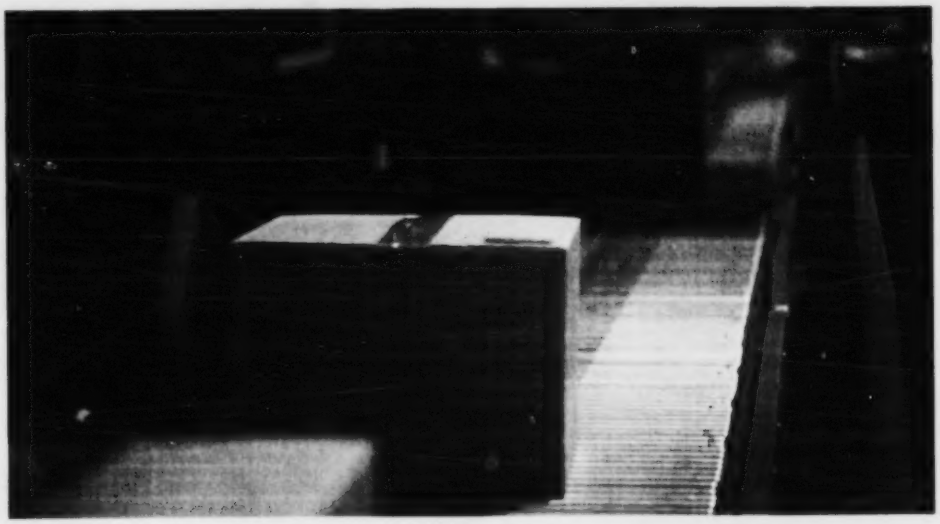
Skimming *is the theft of credit card information used in an otherwise legitimate transaction. Common scenarios involve the skimmer having possession of the victim's credit card out of immediate view; for example, skimming can be facilitated by a dishonest employee of a legitimate merchant. The thief can procure a victim's credit card number by photocopying receipts or using a small electronic device that can swipe and store hundreds of credit card numbers.*

Phishing *involves the use of fraudulent e-mail messages and websites that appear to originate from a legitimate company – such as a bank, online retailer or government agency – to obtain personal information from victims.*

Criminal specialists and niche skills

Where critical skills necessary to facilitate criminal activities are absent within a criminal group, skilled outsiders are recruited or exploited to provide this service. The individual may be considered an outside contractor or part of the criminal network. Services can range from accountants, lawyers, chemists, commercial truckers, helicopter pilots, hackers and cyber criminals to those with access to particular goods, such as firearms, false documentation or vast quantities of financial data. There are money laundering specialists, for example, who launder money for several criminal groups and charge commission for the service. Criminal networks also make use of those who can facilitate extortion, debt enforcement, kidnapping or murder.

Criminal enterprises, particularly those that involve shipments of commodities to consumer regions, require coordination to resolve often-complex logistical problems. Working capital must be identified and procured, and individuals would need to be contracted to perform all the tasks, including the manufacture or procurement of goods, their transportation, storage, protection, distribution and sale, the manufacture of any necessary documentation, the paying of bribes, and the laundering of criminal proceeds.

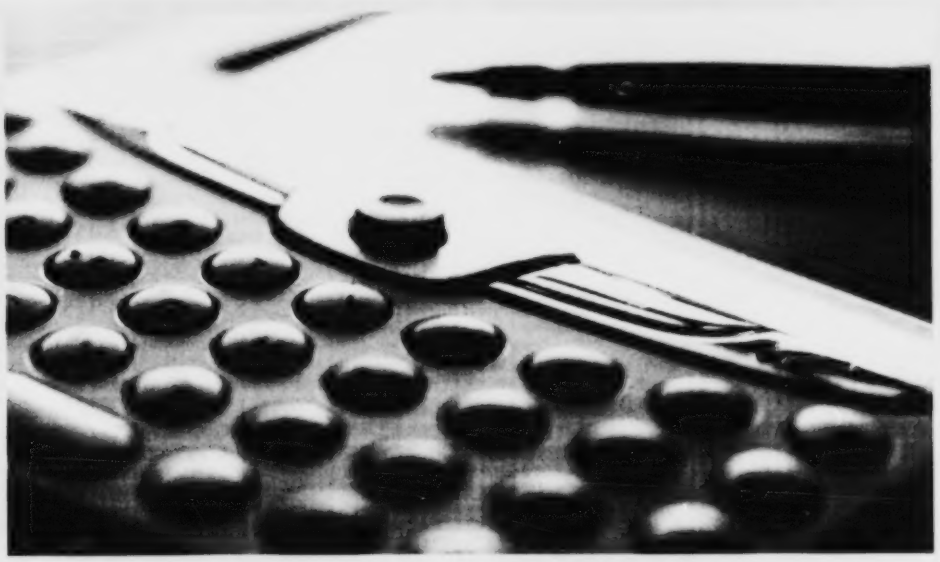


Violence and territoriality

Violence is used by organized crime of all levels of sophistication and capability. However, in some instances, criminal groups with lower-level capabilities will pose a more immediate and direct public safety threat through acts of violence that are often carried out in public places. These violent, lower-level criminal groups are largely but not entirely composed of street gangs, some of which have committed assaults or shootings in public places across the country. The criminal groups have also been known to intimidate communities or specific individuals by prominently displaying their gang-related paraphernalia to silence witnesses of crimes. The degree of street gang violence utilized differs by region and gang. Competition between organized crime groups over territory or a particular illicit commodity can flare spontaneously and lead to inter-group conflict that threatens public safety.

Secure communications

The ability to communicate securely and avoid detection is essential to the operations of organized crime groups. Mobile wireless technology and personal digital assistants are used to facilitate instant communication between group members. In addition to face-to-face



meetings, criminal groups make use of disposable cellular phones to conduct their criminal activities. Internet-based communications provide instant and anonymous means to both coordinate and perpetrate criminal activity. The enhanced security and encryption features of some of these technologies pose both logistical and legal challenges for law enforcement, making it difficult to infiltrate the criminal networks that employ them.

Corruption

To obtain access to information or thwart enforcement or regulatory processes, organized crime groups target a wide range of occupations to facilitate criminal activity. For example, the corruption or collusion of individuals working at points of entry continues to play a role in the international movement of illicit commodities. Targets of corruption and collusion can extend to a range of criminally inclined individuals being exploited from baggage handlers and ground crews, to various resource and supply services, as well as to law enforcement and public officials.

> "Organized crime is so pervasive it demands coordination among federal government departments and intelligence agencies, the provinces, law enforcement agencies and private sector organizations. No single organization has responsibility for addressing this problem. We all must share information and work together to ensure Canada's economic integrity." ***Canadian Bankers Association, Director of Security, William J. Crate***

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CRIMINAL MARKETS

"It is abundantly evident that in a variety of ways organized crime enterprises diminish the safety, security and quality of life of law abiding Canadians." ***Ontario Provincial Police, Commissioner Julian Fantino***

NATIONAL OVERVIEW OF CRIMINAL MARKETS

Criminal Intelligence Service Canada (CISC) examines organized crime in terms of illicit markets and the criminal groups/networks that play pivotal roles within them. Criminal markets are dynamic, reacting to global shifts in supply and demand, and changing according to domestic pressures such as competition and law enforcement disruption. The recent economic downturn, for example, is part of a global reality that impacts organized crime operations in Canada. This section is intended to provide a topographical look into some of the criminal markets that comprise the Canadian criminal marketplace.

KEY FINDINGS

There were approximately 750 criminal groups identified in 2009. Changes in numbers are likely reflective of an anticipated degree of fluidity in the criminal marketplace. Numerous other factors including disruptions by law enforcement, changes in intelligence collection practices or a combination of these also cause fluctuations in the identification of criminal groups.

CRIMINAL MARKETS

Contraband Tobacco

Contraband tobacco in Canada is primarily supplied by organized crime groups based in Quebec and Ontario. Its manufacturing largely occurs on Aboriginal reserves in Quebec and Ontario as well as some northern US reserves where it is smuggled into Canada. Organized crime groups will continue to exploit this market to meet consumer demand.

Environmental Crime

Environmental crimes range from poaching and capturing rare and endangered species of flora and fauna (to either be sold as food in local markets, specialty foods to national and international markets, medicines or as live additions to private collections), to the illegal harvesting of timber, illegal gemstone and mineral mining and the illegal transport and disposal of hazardous waste, among others. Environmental damage can also result from the dumping of waste from methamphetamine production and marihuana grow operations. Canada has been the destination country for poached goods including Australian shark fin, caviar, live reptiles, amphibians and mammals. It is also a source country for bear gallbladders that are prized as a traditional Chinese medicine.

EXAMINING ENVIRONMENTAL CRIME

Trafficking in endangered or protected species is a form of organized crime commerce. A joint investigation, dubbed 'Operation ShellShock', started approximately two years ago by the New York Department of Environmental Conservation and it focused on the illegal trade of protected reptiles and amphibians. The Ontario investigation was conducted in cooperation with the Ontario Ministry of Natural Resources, US Fish and Wildlife Service, Environment Canada, Canada Border Services Agency and the US Immigration and Customs Enforcement.

Reptiles are often sold over the Internet or at herpetological ('herp') shows, which are similar to gun shows. Authorities involved in the investigation went undercover to monitor websites and chat rooms and set up sting operations to stop the trafficking of at risk species. The investigation revealed more than 2,400 animals were illegally sold or poached. Thirty-four charges were laid against three Ontario residents for various violations.

In May 2009, one of the accused was handed a 90-day jail sentence, two years of probation, and a $4,000 fine for his part in this criminal activity. This individual attempted to sell 35 Eastern Massasauga rattlesnakes, which had been transported in pillowcases, as well as one spotted turtle, to an undercover officer in a Buffalo mall parking lot, in exchange for Timber rattlers and a small amount of cash.

A Director with Environment Canada said that the convictions represent real progress in meting out penalties for crime against animals. Similar crimes only a few years ago amounted to a $50 fine.

"The Canada Border Services Agency is uniquely situated to bring the border dimension to our police and law enforcement partners. Information is valuable, but even more so when shared at the right time informing law enforcement activities and decision-makers." ***Canada Border Services Agency, Director General of the Intelligence Directorate, Geoff Leckey***

CBA INTELLIGENCE UNIT WINS IALEIA AWARD

Taking the lead in prevention, detection, and investigation of financial crime

The Canadian Bankers Association recently established its own Centralized Financial Crimes Intelligence Unit (CFCIU) and has already received international recognition for making the most significant progress utilizing intelligence analytical techniques to support law enforcement objectives.

In April 2009, representatives from the Canadian Bankers Association (CBA) convened in Las Vegas, Nevada to attend a conference hosted by the International Association of Law Enforcement Intelligence Analysts (IALEIA). CBA was presented with the 2009 Professional Service Award in the National Organization Category. Specifically, CBA was recognized for their reports on ABM/ATM card fraud crime hotspots, which includes crime mapping, link analysis, day of week matrices and predictive analysis on next target locations. CFCIU's analysis and information has led to numerous arrests in Canada; for example, in March 2009 there were 20 arrests in one weekend for ATM-related frauds at locations in Montreal and Toronto. These areas were placed under surveillance pursuant to predictive analysis reports from the CFCIU.

IALEIA is the largest professional organization in the world representing law enforcement analysts. It promotes the highest standards of professionalism in law enforcement intelligence analysis at the local, provincial, national and international levels. CFCIU has demonstrated its initiatives in advancing these core principles and continues to maintain public confidence and the safety and security of customers, employees and the banking system in Canada.

CBA is a member agency of both Criminal Intelligence Service Ontario and Criminal Intelligence Service British Columbia/Yukon Territory. As a recent and proud new member, and with this recognition by IALEIA, CBA will continue to advance intelligence-led policing and work with law enforcement to reduce the impact of organized crime across Canada.

Financial Crime

Identification (ID) Fraud

Fake birth certificates, driver's licenses, health cards, social insurance number cards and passports represent a lucrative market for organized crime groups. In August 2008, the Canada Revenue Agency (CRA) issued an alert for taxpayers to be aware of a scam in which letters asking for individuals' personal information were fraudulently identified as coming from the CRA. In March 2009, a similar scam using e-mails was performed in which fraudsters requested personal information, including banking and passport information, to update records and process refund claims.

Criminal groups will continue to employ a variety of methods to gain access to this information to commit ID fraud. Although new security measures to combat ID fraud are continuously being implemented, such as the expected release of electronic chips implanted in passports in 2011, organized crime groups will continue to endeavour to overcome the anti-fraud obstacles and profit from this market.

Mass Marketing Fraud

Mass marketing fraud can be defined as fraud, deception or misrepresentation that uses mass communication media such as telephone, facsimile, Internet, regular or electronic mail. It also uses solicitation methods devised or intended to defraud the public, any person or organization of any property, money, valuable security, service or information.

According to the Canadian Anti-Fraud Call Centre (CAFCC), Canadian based mass marketing fraud operations gross over $500 million per year. In 2008, Canadian victims of fraudulent mass marketing operations based in Canada reported losses of $26.9 million to the CAFCC, an increase of over $2 million from 2007. It is estimated only 5% of actual complaints are reported. The top reported mass marketing schemes last year included: service, prize (e.g. sweepstakes/lottery and gift), purchase of merchandise, sale of merchandise, job, vacation, collection agency and charity.

Advances in technology and software programs have allowed criminal organizations to alter and expand their mass marketing fraud activities. Fraudsters can be located anywhere and are able to target consumers by using Voice over Internet Protocol (VoIP). By not having a fixed location, it becomes extremely difficult for authorities to dismantle these types of operations.

"The best way to effectively combat organized crime is to work collaboratively with both our affected communities and our policing partners. The Calgary Police Service is committed to involving communities as part of the solution, and recognizes that an 'intelligence-led policing model' is critical to our success."
Calgary Police Service, Chief Rick Hanson

Payment Card Fraud

Payment card fraud involves card thefts, fraudulent card applications, fake deposits, skimming or counterfeiting, and is a relatively efficient means for criminals to obtain cash profits. The ease with which payment card fraud can be undertaken and the profitability of this activity make it an attractive market for both opportunists and organized crime groups. Within Canada, this form of criminal activity continues to be concentrated in urban areas of Quebec, Ontario and BC, with a lesser presence in the Prairie and Atlantic regions.

Credit card fraud and Interac statistics provided by the Canadian Bankers Association shows combined annual losses due to debit and credit card fraud in Canada exceeded $500 million in 2008. Recorded losses from debit card fraud in Canada decreased slightly from losses in the previous year, while those from credit card fraud increased. The bulk of credit card fraud losses are attributed to counterfeiting and fraudulent purchases, suggesting an increase in organized criminal operations.

Currently, hackers are targeting online sites and using malware and keystroke-logger programs to steal credit card data in order to bypass the need for skimming activity. This trend is likely to increase as online banking continues to grow in popularity. A transition from magnetic stripe debit and credit cards to ones embedded with microchip technology is currently underway in Canada; however, a complete implementation of the technology is expected to take several years. Furthermore, chip technology has no impact on the security of credit cards when used to purchase items online, by mail order or by phone.

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CREDIT CARD FRAUD TERMINATED

In November 2008, Project H23 came to a successful conclusion. The nine-month joint operation in Winnipeg and Calgary focused on sophisticated "skimming" and counterfeiting of credit cards involving street gangs and their associates. The amount racked-up on the credit cards was upwards of $750,000 but the suspects had data with the potential to fraudulently spend in the tens of millions of dollars.

Project H23 consisted of Winnipeg Police and RCMP Commercial Crime Units who collaborated with the Calgary Police Service's Commercial Crime Unit. The investigation resulted in 19 arrests in Winnipeg and two in Calgary with more than 300 criminal charges including fraud, theft, arson, illegal firearms possession and trafficking, robbery with a firearm, and conspiracy to commit murder. As the investigation progressed evidence of other crimes was discovered and confirmed the involvement of street gang members. This included vehicle thefts wherein the vehicles were 're-vinned' and sold for profit.

The investigation was sparked by an incident caught on video tape at a video store in Winnipeg in March 2008 when a customer used a counterfeit credit card as payment. Law enforcement intelligence identified this same individual with a history of being extremely proficient in computers, of forging documents and trafficking in credit cards. After further research, the RCMP became involved and the incident transformed into a full blown operation, dubbed Project H23.

Detectives involved in the operation confirmed that the individual's computer expertise extended well beyond the norm. His group hacked into computer networks, obtaining over 45,000 pages of credit card data from computer websites originating in Europe and the United States. Project H23 also clearly demonstrated that some gang members and associates employ or have access to persons with sophisticated skill sets. Police recognize that this level of sophistication/expertise is becoming more prevalent among organized crime groups.

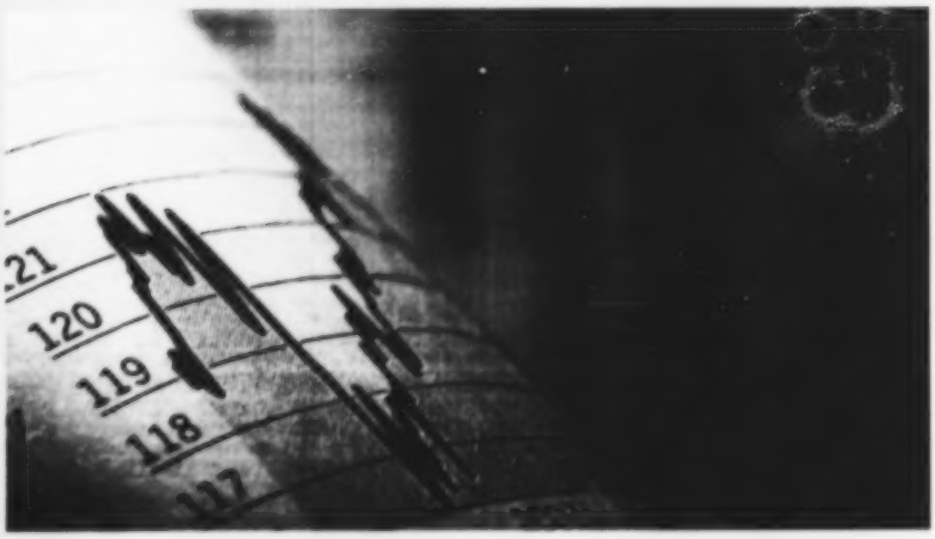
Project H23 highlighted one of many instances showing how the intelligence cycle operates and how it spurred an important investigation that resulted in safer homes and safer communities.

Securities Fraud

Securities fraud can be a highly lucrative and attractive criminal activity for organized crime groups with the requisite financial expertise. It poses a significant threat to investor confidence and the integrity of the capital markets as it involves illicit market manipulation, high-yield investment schemes or brokerage account hijackings.

Organized crime groups target professional facilitators, such as lawyers, stock brokers, and accountants, to perpetrate securities fraud. They will often use virtual tools, such as e-mail and Internet sites like Facebook and YouTube, to efficiently and anonymously target victims worldwide and issue fictitious promotional material advertising fraudulent investment opportunities.

Current global economic conditions resulting from the collapse of the US sub-prime mortgage industry exposed several large-scale investment frauds as investors sought to withdraw their cash only to discover it is no longer there. Building on investor fears and mistrust of the major banks, fraudsters may see an opportunity to represent fraudulent investments as being 'secure and highly profitable.'



"Organized crime is responsible for the high amount of drug supply and gang violence plaguing communities across Canada." ***Edmonton Police Service, Chief Mike Boyd***

MORTGAGE FRAUDSTERS INFILTRATED IN ALBERTA

The disruption of a massive mortgage fraud believed to be the biggest in Alberta history provides a clear example of how intelligence-led policing and greater integration of police agencies disrupt organized crime to create safer homes and safer communities.

The discovery of a criminal organization swindling unsuspecting real estate investors out of nearly $30 million first began in 2003 when an Edmonton police constable working in a derelict housing unit shared information regarding significant discrepancies in the value of property. From this information, Alberta's Integrated Response to Organized Crime (IROC) unit became involved. A team was created that consisted of RCMP and Edmonton police members who worked together for 18 months before charges were laid.

Detectives of IROC's Project Infiltrate laid a total of 142 charges of offences that took place between 2001 and 2005. It involved 125 properties, more than 280 real estate transactions and 19 different lending institutions. The initial purchaser netted $1.8 million in less than a five-year period. Five Edmontonians were recently convicted in connection with the massive mortgage fraud scam.

One of the convictions marks the first time in Canadian history that a criminal is convicted of committing economic crimes for the benefit of a criminal organization. The law under which the accused was charged has primarily been used to convict criminals who commit drug crimes for gangs.

Illicit Drugs

Illicit drugs continue to be the primary criminal market in Canada in terms of estimated revenue and the number of participating organized crime groups. These drugs are distributed across the country by criminal groups operating at all levels of capability and scope. Typically, it is the more sophisticated crime groups who are active in operations such as wholesale distribution, importation and domestic production. Highlights of select illicit drugs are featured in this section and provide a general overview of how these substances are positioned in the marketplace.

ILLICIT DRUGS AND FIREARMS SEIZURE IN VANCOUVER

The Vancouver Police Department conducted an investigation, dubbed Project Rebellion, into crime groups based in the southern portion of the city. These groups were involved in the trafficking of controlled substances such as cocaine and heroin, firearms trafficking as well as crimes of violence such as assaults and drive by shootings.

Based on police intelligence, Project Rebellion targeted a criminal group that ran street level trafficking operations 24 hours a day, seven days a week in the southern part of Vancouver as well as in nearby municipalities. Informant reports and surveillance also indicated that the group possessed firearms and that its members wished to acquire additional firearms.

Undercover operations were used to purchase controlled substances as well as to attempt to purchase firearms from members of the criminal group. The police operation also exposed group members purchasing assault rifles and pistols from an undercover operator. Warrants were executed resulting in the seizure of pistols, ammunition, assault rifles, a shotgun and controlled substances. In March 2009, the targets were intercepted and are being held in custody pending trial on firearms and *Controlled Drug and Substances Act* charges.

PROJECT TANDEM TARGETS ILLICIT TRAFFICKING

Project Tandem was a multi-jurisdictional police investigation led by the Ontario Biker Enforcement Unit and supported by municipal, provincial, and federal law enforcement agencies. The investigation focused on illegal importing/trafficking in cocaine, hashish, illegal distribution of firearms and proceeds of crime activities of full-patch members of the Hells Angels Motorcycle Club in Oshawa. It subsequently spread to include select Hells Angels Motorcycle Club members from its East Toronto, Keswick, Niagara, Nomads, Simcoe County, and Windsor chapters.

The investigations concluded on September 28, 2006 with the arrest of 24 persons, including 13 full patch members of the Hells Angels Motorcycle Club and 11 prospects and associates. On September 26, 2008 the remaining four accused, three of which were full patch and senior members of various Hells Angels Motorcycle Club chapters in Ontario, entered guilty pleas to a number of drug and proceeds charges.

The Superior Court of Justice found the Hells Angels Motorcycle Club to be a national criminal organization and gave cumulative sentences totalling approximately 93 years in jail, with forfeiture of approximately $644,895 in cash and seven vehicles.

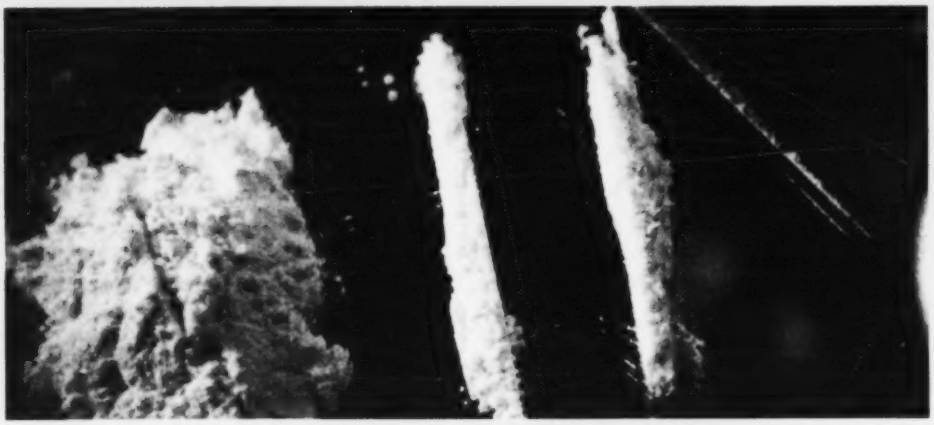
A senior counsel with the Public Prosecution Service of Canada's Anti-Organized Crime Unit said the results achieved are the product of effective and early partnerships with an investigative team dedicated to excellence and all the best practices that came together under the Biker Enforcement Unit.

"The Toronto Police Service is committed to operations that allow us to be deliberate and precise with our actions and include a reliance on neighbouring law enforcement agencies for support. These projects result in more arrests, more gun and drug seizures and safer streets." ***Toronto Police Service, Chief of Police William Blair***

Cocaine

Cocaine continues to be a major illicit drug imported to Canada and has become an attractive option for organized crime involvement. Cocaine is largely produced in Colombia, Peru, and Bolivia and from these source countries finds its way to transit countries including the US, Guyana, the Dominican Republic, and Mexico. The US is the primary transit country for cocaine entering Canada where it is typically smuggled through highway ports of entry concealed in commercial and personal vehicles.

Some organized crime groups based in western Canada have shifted their cocaine smuggling operations from the Pacific Region to ports of entry in Ontario and Quebec – possibly in response to successful law enforcement actions at the BC-Washington border.



Heroin

In Canada, consumer demand for heroin remains low but consistent in comparison with demand for most other illicit drugs. Organized crime groups, mainly in BC and Ontario, are involved in the heroin market, importing heroin primarily from Southwest Asia and Latin America. Heroin enters Canada primarily through marine and air ports concealed either within commercial cargo or carried by individuals within their baggage or on their person.

ILLICIT DRUG OPERATION DISMANTLED

From October 2006 to December 2007, the Combined Forces Special Enforcement Unit – British Columbia (CFSEU-BC) led an investigation into crime groups dealing in illicit drugs. Project E-Paragon targeted groups based in British Columbia but whose operations also spread into other countries.

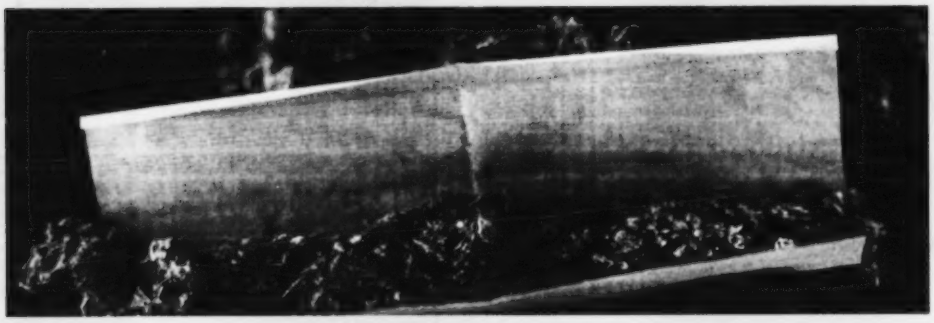
Within Canada, CFSEU-BC partner agencies included the Canada Border Services Agency, Combined Forces Special Enforcement Unit –Toronto (Project O-Lorry), Vancouver Police Department, Lower Mainland RCMP Detachments, RCMP Greater Vancouver Drug Section and the BC Integrated Gang Task Force. CFSEU-BC was also assisted by international law enforcement agencies, notably the US Drug Enforcement Administration and the Australian Federal Police.

Intelligence gathered by CFSEU-BC during the investigation led to seizures of drugs, money, other assets and firearms in several countries and led to the arrest of approximately 100 targets during the investigation. Over the course of E-Paragon, 50 targets were intercepted on 193 target telephones totalling over 255,000 calls in North America. Seizures during Paragon include 890 kilograms of cocaine, 121 kilograms of methamphetamine, 83 kilograms of MDMA, 1,750 pounds of ephedrine, 100 gallons of MDP2P, 11.5 units of heroin, 10,000 pounds of Marihuana, three clandestine labs, 2.4 million dollars in cash and six properties in Vancouver and Toronto.

In December 2008, the primary target of E-Paragon in Canada was sentenced to twenty years. Charges against other persons in Canada are still pending trial, and persons arrested in other countries in relation to this investigation received significant sentences.

Marihuana

The market for marihuana is one of the most significant illicit drug markets, both globally and in Canada. The domestic market for cannabis is almost entirely supplied by Canadian-produced marihuana. The inter-provincial movement of marihuana stems from three main production hubs in BC, Ontario, and Quebec and is used to meet Canadian demand and to transport large quantities of marihuana to areas along the Canada-US border for smuggling into American markets.



Some organized crime groups involved in the cross-border exchange of marihuana for cocaine rely on sophisticated communications technologies to evade detection by law enforcement. To minimize the need for bulk currency smuggling into the US, criminals will smuggle Canadian-produced marihuana in exchange for cocaine, firearms, and contraband tobacco.

"Criminal organizations have no defined boundaries when it comes to conducting illicit activities. Consequently, the inter-connectivity between criminalized gang members presently under our jurisdiction and their affiliates in the community remains a priority." ***Correctional Service of Canada, Director of Preventive Security & Intelligence, Pierre Sangollo***

Pharmaceutical Opiates

The illicit distribution of pharmaceutical opiates is a small but persistent market, particularly in Ontario and the Atlantic region. Illegal distribution is often a secondary criminal activity for organized crime groups. In part, the heroin market is being replaced by prescription opiates as opiates provide a similar type of 'high' or sensation. Organized crime groups in Canada

obtain their illicit pharmaceutical opiates by various means with the majority exploiting or relying on corrupt doctors. Internet pharmacies are also targeted and there is some indication that pharmaceuticals smuggled into Canada from other countries may be contributing to the supply of pharmaceuticals to the illicit market.

HELLS ANGELS HIT HARD IN EASTERN CANADA

The Sûreté du Québec spearheaded a major joint policing effort involving municipal, provincial and federal police agencies in Quebec. This resulted in effectively dismantling the Hells Angels' infrastructure and disrupting their capacity to use communities in the Eastern region to carry out their criminal activities.

The police investigation, dubbed Operation SHARQC (Stratégie Hells Angels Région Québec), was created to prosecute all criminal activity associated to the Hells Angels of Quebec, slow down its infiltration into the legal economy, and recover tax losses generated with illegal trade. In pursuit of these objectives, charges were laid against accused individuals on April 15, 2009 that included gangsterism, trafficking in a controlled substance, conspiracy to commit murder, and murder. Of all Hells Angels' members and candidates, only two remain that are not currently in prison. Arrests also took place in Ontario, New Brunswick, the Dominican Republic and France.

The three-year long investigation involved over 300 police officers who collected information and intelligence. More than 1,200 officers from about 20 municipal, provincial and federal police forces executed arrest and search warrants that resulted in the seizure of $5 million in cash, dozens of kilograms of cocaine, marihuana and hashish, and thousands of pills. There were a total of 156 targets of Operation SHARQC comprised of 111 full-patch members, four prospective candidates, one sympathizer, 11 retired members and 29 family relations.

"More and more, law enforcement operations and activities to combat organized crime are being conducted in a renewed spirit of partnership, overtaking an approach that is committed to joint resources to one that is based on integrating intelligence." ***Sûreté du Québec, Director General Richard Deschesnes***

Synthetics

Ecstasy

Canadian-produced ecstasy supplies the domestic market and Canada remains one of the top producers of ecstasy to the global illicit drug market. Sophisticated organized crime groups in Canada continue to conduct large-scale production and distribution operations. Precursor chemicals for the production of ecstasy are smuggled into Canada from source countries such as China and India on a regular basis. The substantial production of ecstasy in Canada has directly affected the domestic market, resulting in a considerable decline in price. Ecstasy is readily available in most Canadian provinces.

The chemical profile of ecstasy has changed significantly in recent years, shifting from 'pure' MDMA (3,4-methylenedioxy-N-methylamphetamine) content to a cocktail composition that contains decreased quantities of MDMA and increased quantities of several chemical fillers. This shift is largely profit driven as the use of chemical fillers is cheaper than MDMA. The varying composition of ecstasy can pose an additional risk to consumers expecting pure MDMA content.

Methamphetamine

While domestic use of methamphetamine has shown no increase, production has risen to meet expanding international market demands. 'Super labs' capable of producing large amounts of methamphetamine cater to international wholesale distributors with export to countries including Australia and New Zealand.

A number of sophisticated crime groups in BC have established themselves as the dominant illegal importers of precursor materials for the manufacture of illicit synthetic drugs. These groups maintain extensive international networks to facilitate the importation of precursor, as well as the international distribution of methamphetamine. Methamphetamine continues to be used as filler in Canadian-produced ecstasy as it is cheaper to produce and acts as a filler to increase weight and profit margin.

Illicit Firearms

Most organized crime groups in Canada are known to be involved in some aspect of the illicit firearms market and have access to firearms when needed. Some groups are involved in smuggling and trafficking but for many it is not a main activity.

Domestically sourced firearms are mainly obtained from residential and, to a lesser extent, commercial thefts. Members of organized crime are known to identify and target legitimate firearms owners, in particular those with large collections. Other known sources of domestic illicit firearms are guns that were previously registered under the former Restricted Weapon Registration System (RWRS) and not re-registered under the current Canadian Firearms Information System (CFIS), unregistered and deactivated firearms, as well as diversions from legitimate industry.

Firearms that have been smuggled into Canada come from a number of foreign countries, however, the vast majority are known to originate from the United States. A regional link exists

> "The Canadian Forces, like any other community, is subject to the effects of organized crime. The use of an intelligence-led policing approach will assist us in combating the reach of these organizations into the CF."
> ***Canadian Forces Provost Marshal, Colonel T.D. Grubb***

between provinces where smuggled firearms are recovered and US source states (e.g. Ontario and Michigan). These links have remained consistent over recent years.

Intellectual Property Rights Crime

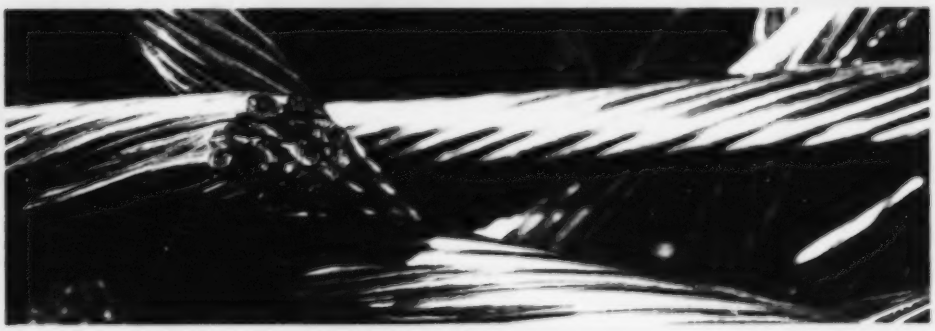
A wide range of counterfeit products, varying in quality and sophistication, have infiltrated the legitimate Canadian marketplace, in many cases without the awareness of the supplier or consumer. Counterfeit goods in Canada are smuggled in primarily from Asian countries, particularly China, although the United Nations Interregional Crime and Justice Research Institute reports that major production sites for global consumption are also located in Thailand, Turkey and Russia.

In an economic downturn, consumers may be more likely to seek out 'lower risk' counterfeit items, such as clothing and media, in an attempt to save a few dollars. Organized crime groups will continue to capitalize on opportunities to expand the availability of counterfeit products through retail outlets, street vending operations and the Internet.

Metal Theft

As of September 2008, the economic slowdown in North America affected the prices of precious metals throughout the world. Subsequently, demand for these types of metals fell which resulted in a corresponding drop in metal theft occurrences in Canada.

Prior to the economic slowdown, metal theft occurrences skyrocketed across North America. Strong demand in growing economies such as India and China resulted in high prices for



these metals throughout the world and fuelled a wide scrap-metal black market throughout Canada and the United States. Individuals and organized criminals targeted virtually anything containing any precious metals, with copper being the most sought-after metal.

The market prices of precious metals such as copper, aluminium, nickel, zinc, lead and others are directly related to metal theft occurrences. When the market prices for metals increase, it is expected that a corresponding increase in metal theft cases also occurs.

> "Persons involved in organized criminal activity are in it for personal gain. They have no concern for the negative impacts their actions have on individuals, families and communities." ***RCMP, Prince Edward Island, Commanding Officer, Chief Superintendent Randy Robar***

THE FINAL LINK IN THE NATIONAL LAW ENFORCEMENT NETWORK

Police agencies from across Prince Edward Island came together January 2009 in Charlottetown to officially launch PEI's Criminal Intelligence Service Bureau (CISPEI). This completes the CISC network of provincial bureaus dedicated to collecting information and intelligence on organized crime.

The Bureau Director of CISPEI said organized crime makes its presence felt in PEI in a number of ways, but the primary activity continues to be the illegal drug trade. The increased bureau presence in PEI will better enable frontline police officers and specialized units to combat organized crime by providing them with accurate and timely intelligence.

At the launch was PEI's Attorney General who said he is pleased police agencies in the province will now have new resources to help combat crime. An allocation of $320,000 per year over the next five years will be combined with additional funding from the province to ensure the success of CISPEI.

The Director General of CISC Central Bureau in Ottawa said the organization will continue to ensure that law enforcement strategies regarding organized crime are aligned with regional initiatives and tactical priorities.

ROLE OF THE PUBLIC

"Organized crime is about greed and profit. We as a society have to say no to both. Citizens cannot allow either to tempt them to do wrong. Further, police must continue to send a very strong message to criminals that we will not tolerate organized crime in our communities." ***Halifax Regional Police, Chief Frank A. Beazley***

THE ROLE OF THE PUBLIC

Canadians all share the threat of organized crime and it is a problem that not only impacts those persons directly involved, but all members of society in one way or another. While law enforcement is actively engaged in combating organized crime, the public also has an important role in keeping communities and homes safe. In addition to abiding by laws and cooperating with law enforcement, the most effective way of dealing with organized crime is through partnerships and sharing information with law enforcement.

As evidenced in the law enforcement operations throughout the Report, intelligence-led policing initiatives are equipped with a current picture of the scope and direction of criminal activity. The responsibility of sharing information with law enforcement agencies is not only to alert police to immediate threats that jeopardize public safety but also to help prevent future similar crimes from taking place. Sharing information plays a vital role in determining which organized crime groups are well positioned and have the capacity to inflict the most harm. The eyes and ears of the public assist with shaping an accurate portrait of organized crime.

The overview of the criminal marketplace in this Report provides Canadians with a general understanding of the capabilities of organized crime and the role of integrated intelligence-led policing in mitigating its negative impact. Any person having information on organized criminal activity is encouraged to contact their local police service. If you have witnessed or are aware of an incident, suspect fraud, or that you may be a victim of illicit activity, it is important to contact the police and not to gather evidence yourself. Reporting suspicions, even after the fact, can be an effective means of stopping future criminal activities.

Crime Stoppers provides citizens with a vehicle to anonymously supply the police with information about a crime or potential crime of which they have knowledge. It is a partnership of the public, police and media to contribute to an improved quality of life. If you have information about a crime, phone 1-800-222-TIPS (8477) for the closest Crime Stopper Program to you or visit canadiancrimestoppers.org.

PhoneBusters is the Canadian anti-fraud call centre that collects information on telemarketing, advanced fee fraud letters and identity theft complaints. It is managed on a tri-partite basis by the OPP, RCMP and the Competition Bureau of Canada. The data collected at PhoneBusters is a valuable tool in evaluating the effects of various types of fraud on the public. For more information visit phonebusters.com or 1-888-495-8501.

The Canada Border Services Agency Border Watch Toll-free Line is available 24 hours a day, 7 days a week, in both official languages. If you have information about suspicious cross-border activity, please contact the Canada Border Services Agency Border Watch Toll-free Line at 1-888-502-9060.

ABOUT CISC

"We will continue to employ resources to protect our youth and to allow residents to live and feel safe in our city, our districts, our streets and our parks." ***Service de police de la Ville de Montréal, Director Yvan Delorme***

ABOUT CISC

As the voice of the Canadian criminal intelligence community, the fundamental purpose of Criminal Intelligence Service Canada (CISC) is to facilitate the timely and effective production and exchange of criminal intelligence. By determining major developments and trends in criminal markets as well as those factors which are most likely to affect the dynamics of a particular criminal market, CISC is better able to determine which groups are well situated and have the capacity to adapt and capitalize upon these trends. This provides a comprehensive and current picture of the scope and direction of criminal activity.

CISC consists of a Central Bureau in Ottawa that liaises with, and collects intelligence from, ten Provincial Bureaus that serve all of Canada's provinces and territories. The Provincial Bureaus operate independently while maintaining common standards in the delivery of their products and services.

CISC Membership

CISC membership includes more than 400 law enforcement agencies across the country. These agencies supply criminal intelligence to their respective Provincial Bureaus for further analysis and dissemination. The Provincial Bureaus in turn provide their findings to Central Bureau for analysis and the creation of strategic criminal intelligence products and services at a national level.

Governance

CISC is governed by the CISC National Executive Committee, which is currently comprised of 23 senior executives from Canada's law enforcement community and chaired by the Commissioner of the Royal Canadian Mounted Police (RCMP). This Committee meets twice annually to review the operation of CISC and to decide on communal goals. The Director General of CISC, who heads Central Bureau, is Secretary to the National Executive Committee and coordinates the efforts of all Provincial Bureaus in providing criminal intelligence products and services.

Automated Criminal Intelligence Information System

CISC's member agencies collaborate in the exchange of criminal intelligence by contributing to the Automated Criminal Intelligence Information System (ACIIS), the Canadian law enforcement community's national criminal intelligence database on organized and serious crime. Central Bureau is the custodian of ACIIS, which it manages on behalf of, and in consultation with, all CISC member agencies.

Personnel

The personnel of Central Bureau consists of RCMP employees and secondments from other law enforcement agencies. Secondments at Central Bureau currently include: Canada Border Services Agency, Canadian Forces Military Police, Ontario Provincial Police, Ottawa Police Service, Saskatoon Police Service, Service de Police de la Ville de Montréal and the Sûreté du Québec. CISC's Central Bureau receives administrative and financial support from the RCMP through its Policing Support Services, which provides essential front-line support services to the law enforcement community in Canada and abroad.

NOTES